



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
On Applying Agreed-upon Procedures
Texas.gov Financial Report

For the sixteen months ended December 31, 2014



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Independent Accountants' Report on Applying Agreed-upon Procedures

The Board of Directors and Management
Texas Department of Information Resources:

We have performed the procedures enumerated below and in Attachment I related to the Texas.gov Financial Report as of and for the sixteen months ended December 31, 2014 (the Report) for attached hereto as Attachment II, which were agreed to by the managements of the Texas Department of Information Resources (DIR) and Texas NICUSA, LLC, a wholly owned subsidiary of NIC Inc. (NIC), solely to assist the specified parties in evaluating the Report. Management of NIC is responsible for the Report and related accounting records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of DIR and NIC. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Revenue

1. We obtained a summary of transaction and service revenue accounts and agreed the amounts to the trial balance maintained by NIC for the sixteen months ended December 31, 2014 without exception and agreed the total amount to the Report without exception.
2. We obtained the transaction revenue and service revenue subledgers and agreed the total to the revenue summary schedule discussed in procedure 1 above. We added the individual amounts in the transaction revenue and service revenue subledgers and compared the resultant total with the amount in the trial balance. We found no exceptions.
3. We obtained a summary reconciliation comparing revenue recognized for the sixteen months ended December 31, 2014 to a schedule of the associated cash received and related 30% cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas. We traced the amount of revenue recognized to the revenue summary schedule discussed in procedure 1 above. We traced the total amount of cash received and cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas to a detail cash activity report generated by NIC's accounting system within +/- \$500. Electronic Filing Service Provider (EFSP) and Texas Department of Criminal Justice (TDCJ) cash of approximately \$25.9 million is included in the reconciliation but is not considered revenue to NIC. Also there was approximately \$190,000 of reconciling items related to deferred revenue and unbilled not collected as of December 31, 2014 that was agreed to respective supporting details. We found no exceptions.



4. We selected a sample of 30 nonlocal transaction revenue items from the revenue subledger discussed in procedure 2 above, and obtained the associated evidence of cash payment received. The 30 items were stratified by revenue stream dollar totals for the sixteen months ended December 31, 2014. For each sample, we traced the amount per the transaction revenue subledger to documentation of cash received except as noted in the following paragraphs.

For six sample items, we agreed the amount per the bank statement evidencing cash receipt to the sampled item, noting variances no greater than \$21 for each of the six items we sampled. NIC represented that a month-end adjustment is made to cover all variances between the revenue recorded and the expected deposit date. We found no exceptions.

For two sample items, we agreed the amount to the respective journal entry as the transaction was an adjustment to revenue to reconcile to cash received. We found no exceptions.

For sampled items which were processed as part of a batch payment from the Texas Comptroller of Public Accounts, we inspected the daily batch data file containing the sampled item and traced the amount per the transaction revenue subledger to the daily batch data file. In addition, we traced the total amount per the daily batch data file containing each sampled item to evidence of cash payment received from the Texas Comptroller of Public Accounts which was 70% of the gross revenue recorded. We found no exceptions.

5. We selected a sample of 4 local transaction revenue items from the revenue subledger discussed in procedure 2 above, and obtained the associated evidence of cash payment received. There were only 4 local transaction revenue items for the sixteen months ended December 31, 2014. For each sample, we traced the amount per the detail cash activity report to the revenue subledger and to documentation of cash received. We found no exceptions.
6. We selected a sample of 10 items from the service revenue subledger, and obtained the associated evidence of cash payment received. We agreed the amount per the revenue subledger to the bank statement. We found no exceptions.
7. We selected November 2013, April 2014, and August 2014 and obtained the monthly bank reconciliation and corresponding bank statement for each month. For each monthly bank reconciliation, we verified the mathematical accuracy and noted management review of the reconciliation was documented within 30 days of the respective month end. We found no exceptions.

Operations Costs

8. We obtained the credit card fee subledger for the sixteen months ended December 31, 2014 and agreed the total amount to the Report without exception. We added the individual amounts in the credit card fee subledger and compared the resultant total with the amount in the trial balance for each account without exception.
9. We selected a sample of 30 credit card fee items from the credit card fee subledger and obtained the associated vendor credit card statement and evidence of cash payment. We agreed the amount per the credit card fee subledger to each of the supporting documents provided. For sample items that were accruals, we noted the reversal of the accrual and the recording of the actual amount paid which was agreed to the cash payment. We found no exceptions.



10. We obtained the schedule calculating the State of Texas revenue share for the sixteen months ended December 31, 2014, verified the mathematical accuracy and agreed the resultant amount per the schedule to the Report. The schedule calculates total revenue share as total revenue per the Report, excluding EFiling and Texas Workforce Commission (TWC) tax revenue less total credit card fees and EFiling fees per the Report, multiplied by 40%. The September portion of TWC revenue was not deducted from the revenue share calculation resulting in a \$1,166 overpayment to DIR.

Revenue Cut-Off

11. We obtained the sales detail for the months of December 2014 and January 2015. As revenue is recorded monthly, we selected five transactions posted for the month of December 2014 and five transactions posted for the month of January 2015 for different revenue streams. We then obtained supporting documentation, such as the associated invoice or system transaction date, to determine if the revenue was recorded in the appropriate fiscal year.

For five items sampled for the month of December 2014 and four items for the month of January 2015, we agreed the revenue amount to the DIR Crystal Report noting the transaction dates per the general ledger were in December 2014 and January 2015, respectively. For these online daily transactions processed for which no invoice exists, we inspected the system transaction date as support for the date of service. We found no exceptions.

For one of the five January 2015 samples, we agreed the revenue amount to the difference between the DIR Batch Detail (represents cash received on behalf of Texas agency) and the DIR Merchant Disbursement (represents cash disbursed to Texas agency). For these transactions for which no invoice exists, we inspected the system transaction date as support for the date of service. We found no exceptions.

Expense Cut-Off

12. We obtained the credit card fee detail for the months of December 2014 and January 2015. As credit card fees are booked monthly, we selected five transactions posted for the month of December 2014 and five transactions posted for the month of January 2015 for different revenue streams. We obtained the associated vendor credit card statement and evidence of cash payment, and verified the date of the transaction indicated per the supporting documentation corresponded to the month which the credit card fee was recorded. We found no exceptions.

Management and Oversight

13. We selected April 2014 and December 2014 monthly financial reports and obtained the Quality Control Review form that contained the printed name, signature, and date of review for the preparer, first review, second review, and third review. We found no exceptions.

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We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



This report is intended solely for the information and use of the Board of Directors and management of the Texas Department of Information Resources, Texas Governor's Office, Texas Legislative Budget Board, Texas Legislative Audit Committee, Texas State Auditor, Texas Comptroller of Public Accounts, the Texas Sunset Advisory Commission, Texas state agencies who participate in Texas.gov, the Texas presiding officer of each house of the Texas legislature, the Texas chair of each committee in the Texas legislature with primary jurisdiction over the Texas Department of Information Resources, and Texas members of each house of the Texas Legislature and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 17, 2015

Texas.gov Financial Report Procedures

Revenue

1. Obtain a schedule summarizing all transaction and service revenue accounts and amounts for the period September 1, 2013 to December 31, 2014, and agree amounts in each account to the trial balance and the Texas.gov Financial Report for the period September 1, 2013 to December 31, 2014.
2. Obtain the transaction and service revenue subledgers and agree the total to the revenue summary schedule. Sum the individual revenue amounts shown in the revenue subledger, and compare the resultant total with the amount in the trial balance.
3. Obtain a reconciliation of transaction revenue recognized for the period September 1, 2013 to December 31, 2014 to a schedule of the associated cash received within +/- \$500 or 2% of total cash received.
4. Select a sample of 30 non-local items from the revenue subledger and agree the amount to the associated documentation of cash received. An item is defined as a selected business day associated with an associated revenue stream. The 30 items will be stratified by revenue stream dollar totals for the period September 1, 2013 to December 31, 2014.
5. Select a sample of 20 local revenue items from the revenue subledger and agree the amount to the cash activity report and the associated documentation of cash received. An item is defined as a selected business day associated with an associated revenue stream. The 20 items will be stratified by revenue stream dollar totals for the period September 1, 2013 to December 31, 2014.
6. Select a sample of 10 invoices from the service revenue subledger and agree the amount per the revenue subledger to documentation of cash received.
7. Obtain three monthly bank reconciliations and the corresponding bank statements, verify mathematical accuracy of the bank reconciliation, and note management review was documented within 30 days of the respective month end.

Texas.gov Operations Costs

8. Obtain the credit card fee subledger and agree the total to the Texas.gov Financial Report for the period September 1, 2013 to December 31, 2014. Sum the subledger and agree the resulting total for the period September 1, 2013 to December 31, 2014 to the trial balance.
9. Select a sample of 30 credit card fee items from the related subledger and obtain the associated vendor invoice and evidence of cash payment. Agree the amount per the credit card fee subledger to the related invoice and cash payment.
10. Obtain the schedule calculating revenue share for the period September 1, 2013 to December 31, 2014, verify mathematical accuracy, and agree the amount per the schedule to the Texas Online Financial Report for the period September 1, 2013 to December 31, 2014.

Revenue Cut-Off

11. Obtain sales detail for the months of December 2014 and January 2015. Select a sample of 5 transactions from each month and agree to supporting documentation to determine if revenue was recorded in the corresponding month of service.

Expense Cut-Off

12. Obtain credit card fee detail for the months of December 2014 and January 2015. Select a sample of 5 transactions from each month and agree to supporting vendor statement and documentation of payment, verifying the date of the service per the vendor statement corresponds to the month selected.

Management & Oversight

13. Select two months and verify that NIC Accounting Management completed the Quality Control Review form for the respective Texas.gov Monthly Financial Report.

TEXAS.GOV FINANCIAL REPORT

Operating Schedule

For the sixteen months ended December 31, 2014

Revenues:	
Transaction revenue	\$ 102,100,677
Service revenue	7,747,630
Credit card fees	(21,144,194)
Total revenue	<u>88,704,113</u>
State Share	<u>35,141,214</u>
Variable costs:	
Help desk fees	2,094,500
IVR	176,351
Total variable costs	<u>2,270,851</u>
Professional compensation:	
Management (general and administrative)	1,708,753
Operations	4,800,439
Product development/tech/engineering	8,451,826
Marketing/outreach	526,896
Total professional compensation	<u>15,487,914</u>
Nonlabor operations costs:	
Data center	1,533,217
TEX-AN	73,180
Software licensing	1,106,270
Marketing/promotion	1,128,509
Corporate services	1,992,288
Other	7,863,435
Total nonlabor operations costs	<u>13,696,899</u>
Depreciation costs	<u>3,526,537</u>
Total costs	<u>70,123,415</u>
Net revenue	<u>\$ 18,580,698</u>

See accompanying independent accountants' report on applying agreed-upon procedures.